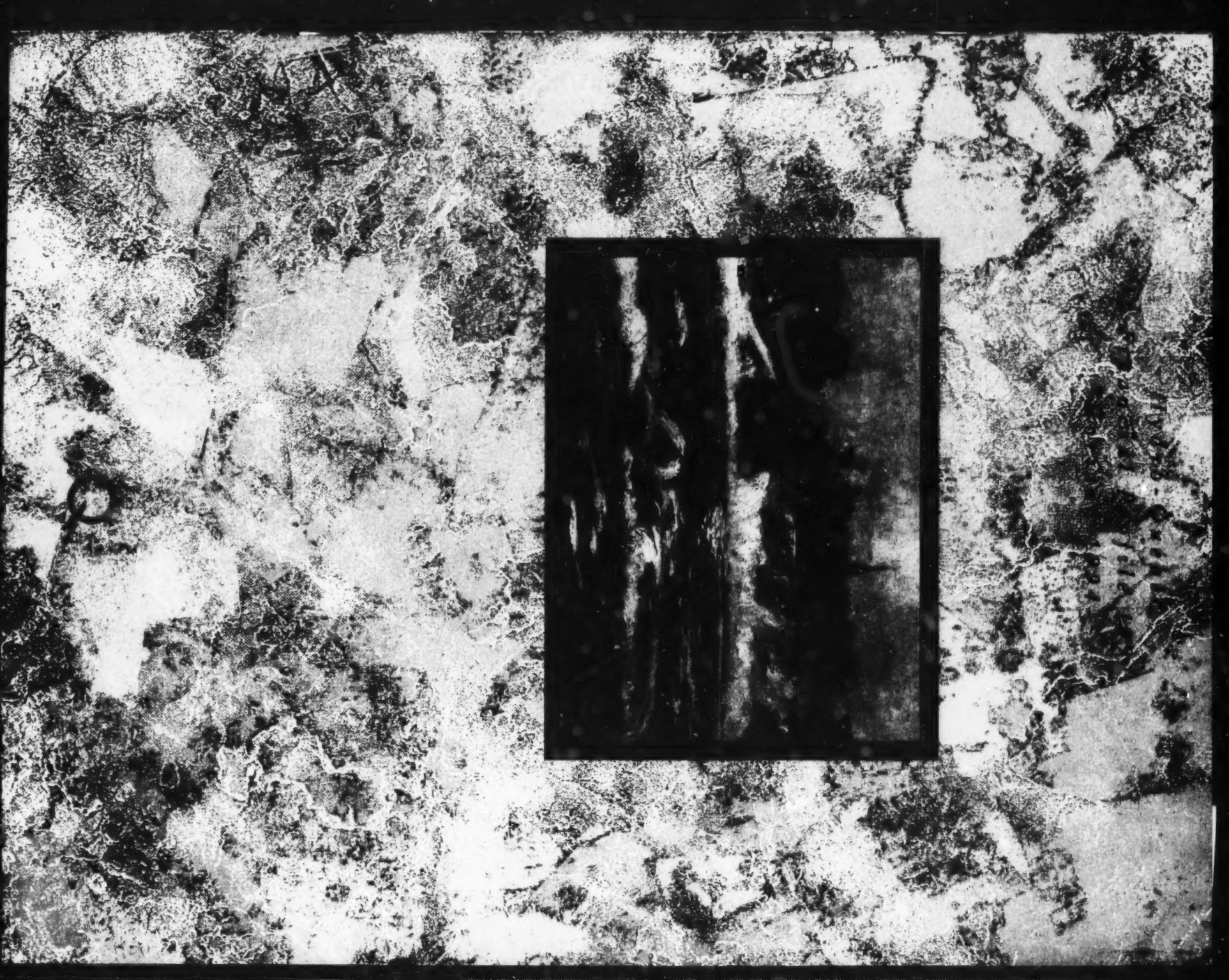

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Note to Readers

This brochure provides an overview of the financial performance of Hydro-Québec since 1985 as at December 31 of each year, as well as its short-term prospects.

Unless otherwise indicated, the data in this document are those of Hydro-Québec, and all amounts are expressed in Canadian dollars.

Symbols for Measurement Units

kV	kilovolt (unit of voltage)
MW	megawatt (unit of power)
kWh	kilowatthour (unit of energy)
GWh	gigawatthour, or 1 million kilowatthours
TWh	terawatthour, or 1 billion kilowatthours

The two works reproduced in the Financial Portfolio are from the Hydro-Québec collection. They all portray the beauty of water, Québec's prime resource. Just as the architect of hydro-electric development feels respect and admiration for this force of nature, so the artist finds inspiration there, and creates a world full of color and feeling.

The cover shows *Chaudière Falls* by Robert W. Pilot.
1942, R.W. Pilot

The reproductions on pages 3, 11, 17 and 25 are by W. Cruickshank Roberts, Joseph C. Franchère, Rene Richard and Irene F. Kelly K., respectively.

93-00426/

Message from the Chairman of the Board and Chief Executive Officer

More Productive Facilities and Improved Services

The progress recorded in recent years in terms of system reliability and service quality is convincing. We are doing a better job of organizing our basic activities, and this has made a major contribution to the constant improvements recorded since 1988. Furthermore, we are actively pursuing numerous programs intended to permanently reinforce our system and optimize our commercial practices. Over the last few years, our dealings with our customers and our publics have resulted in an extremely significant combination of progress and closer ties.

Total Quality and Energy Efficiency: Two Major Corporate Projects Get Underway

The focus of our decisions is the customer. And to serve the customer better, at the end of 1990 we established *Défi performance*, a project intended to implement total quality management at Hydro-Québec. 1991 can be considered the first stage in a series of changes spread over five years. During this period, the principles and instruments of total quality will gradually become established as the foundations of the utility's new method of management.

Although our commitment to energy efficiency dates back more than 20 years, our activities in the field of energy conservation have become greatly strengthened in the past two years. To stimulate, by means of our programs, the saving of some 9.3 TWh per year between now and the year 2000, not to mention the 3.6 TWh from natural savings as the market restructures, is undoubtedly an ambitious project because Québec's electricity rates are relatively low. But since per capita energy consumption is comparatively high in northern countries, we trust that we will be able to achieve substantial gains that will benefit each consumer as much as society as a whole.

Evolving Demand and the Construction Program

As the new century approaches, our energy conservation and consumption management programs and our purchases from independent producers should result in a slowdown in demand for new installations. Following completion of the La Grande complex shortly after the middle of this decade, we will be continuing to commission new installations as electricity needs grow. Despite the effects of the recession, demand should continue to increase over the next few years but at a contained pace. It is expected that sales in Québec will grow primarily in the industrial sector. Export sales should grow more slowly.

As for the longer-term needs of neighboring systems, it seems likely that they will be considerable, even if they may be temporarily postponed because of the economic slowdown and anticipated gains from energy conservation. In this context, hydroelectricity remains more than ever the best option, both economically and environmentally. We have long-standing exchanges with neighboring systems in Canada and the United States, and the commercial ties that have been forged over the years offer both parties significant reciprocal benefits.

Offer customers a product and services better adapted to their needs while ensuring the financial viability of the utility: that is the underlying motivation for our actions as the 1990s begin.

The Framework for Hydroelectric Development

Because of Québec's abundant hydroelectric resources, water has been for more than a century the engine of our development, offering undeniable advantages in every respect. Economical, clean and renewable, this resource is exploited with the strictest respect for the natural and human environment, in accordance with the principle of sustainable development that we adopted several years ago. Our environment policy guides our planning and all of our studies, consultations, construction, operation and follow-up activities. We comply with numerous laws and a number of highly rigorous assessment procedures. We continue to honor our commitments under the 1975 *James Bay and Northern Québec*

Agreement, an innovative accord negotiated with the native people of mid and northern Québec.

More than 80,000 people on average contribute each year, directly or indirectly, to Hydro-Québec's achievements. Our vast expertise is the result of the combined efforts of our own staff and our partners in the private and public sector who really care about the success of our utility, whether in terms of the environment, engineering or finance.

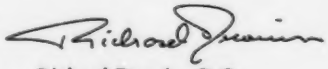
Financial Results Are More than Satisfactory

In 1991, our net income reached $760 million and we expect it to remain at approximately that level for the next few years. It was the 1991 suspension of exceptional measures adopted in 1989 and 1990 in order to raise the energy reserve of our reservoirs that allowed this remarkable increase in income. Runoff levels for 1991, still below normal at the end of the year, force us, however, to make additional purchases of electricity from neighboring systems. The financial consequences of measures intended to offset this persistent phenomenon will be felt primarily in 1992. In order to maintain our good financial situation, we will exercise even more rigorous control over our operating expenditure while continuing to offer our customers electricity rates that are among the lowest in North America.

Helped by the substantial drop in interest rates in 1991 and early 1992, we also recorded substantial improvements in our financial expenses and should do so again this year. With the markets highly receptive to our securities, we substantially increased the volume of loans; in addition to the funds required to finance the year's schedule of activities, we took advantage of favorable market conditions to arrange prefinancing of $2,062 million. We also launched the first global issues in our history, each for an amount of $1,100 million. They were extremely successful among investors all over the world. This type of bond has been added to the range of financial instruments we use to maintain our presence on various markets, minimize our financial risks and maximize our financing in Canadian dollars.

Three of our financial ratios show a noticeable improvement because of better earnings. This has enabled us to consolidate our position with respect to our objectives. Interest coverage is now at 1.10, whereas our objective was 1.00, while return on equity and return on revenue, although slightly below our expectations, nevertheless rose markedly; from 4.8 and 6.9%, respectively, in 1990, to 8.4 and 12.1% in 1991. Moreover, if we leave the prefinancing out of account, our capitalization rate on December 31, 1991 would have been some two percentage points below the 25.0% target, rather than 23.7%. Up $904 million, our increased capital investment of $4,037 million caused our self-financing rate to fall temporarily below the 30% mark to 27.5%. In the coming years, this ratio should rapidly improve because we are witnessing a slowdown in the growth of our investments, which should level out, notably because of the postponement of the Grande Baleine project.

Well supported by a rigorous financing plan, optimal risk management strategies and highly skilled staff, our various financial practices remain a key element in our success on capital markets. More than ever, investors have shown us their confidence by lending us a record sum of $5,897 million in 1991. The members of our financial syndicates have made a major contribution to our efforts to make available a number of debt securities that clearly respond to the needs of all parties, both on the Canadian market and numerous international markets. Now and henceforth, our relations with our investors constitute a dynamic partnership that results in productive and promising exchanges.



Richard Drouin, Q.C.

Chairman of the Board and
Chief Executive Officer

March 10, 1992

W. Goodridge Roberts
Trees and Water
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Hydro-Québec at a Glance 1987-1991

	1987	1988	1989	1990	1991
Financial Indicators (in billions of dollars)					
Total Assets	31.6	31.7	33.9	36.7	41.9
Long-term Debt	21.2	20.6	22.0	24.1	28.1
Shareholder's Equity	7.5	7.9	8.2	8.6	9.4
Operating Statistics					
Energy Sold (in billions of kilowatthours)					
Total	152.9	145.3	137.5	135.2	137.0
Québec	124.1	128.4	127.8	126.0	127.2
Outside Québec	28.8	16.9	9.7	9.2	9.8
Installed Capacity[1] (in thousands of megawatts)	24.5	24.6	25.1	25.7	26.8
Peak Requirements for Winter, Beginning December[2] (in thousands of megawatts)	26.3	26.8	27.3	27.5	29.9
Total Number of Customer Accounts (in thousands)	2,947	3,032	3,086	3,151	3,216
Permanent Employees (in thousands)	18.9	19.3	19.4	20.1	20.8

(1) Hydro-Québec also has access to most of the output of the Churchill Falls generating station, which has a rated capacity of 5,428 megawatts.
(2) Includes Hydro-Québec commitments to La Compagnie hydroélectrique Manicouagan.

Canadian Publicly Owned Electric Utilities Key Statistics 1990

	Hydro-Québec	British Columbia Hydro and Power Authority*	Saskatchewan Power Corporation	Manitoba Hydro*	Ontario Hydro	New Brunswick Electric Power Commission*	Nova Scotia Power Corporation*	Newfoundland and Labrador Hydro
Total Revenue (in millions of dollars)	5,883	1,909	675	703	6,484	909	636	359
Income before Interest and Exchange Loss (in millions of dollars)	2,838	946	253	305	1,917	231	191	179
Net Income (in millions of dollars)	404	207	118	49	129	8	24	22
Assets (Net Plant) (in billions of dollars)	33.3	8.4	2.4	4.3	35.1	2.8	1.8	2.1
Sales (in billions of kilowatthours)	135.1	44.0	11.9	18.5	136.7	17.8	8.7	32.2
Interest Coverage[1]	1.04	1.19	1.45	0.86	0.62	1.44	0.88	1.22
Capitalization Ratio[1] (%)	24.8	20.6	16.6	3.7	17.3	14.1	3.5	22.6
Self-financing[1] (%)	30.7	32.4	–21.7	18.4	22.1	22.7	15.0	32.2
Return on Revenue[1] (%)	6.9	9.2	17.5	6.9	2.0	0.9	3.8	6.0
Construction Work in Progress/ Net Plant (%)	14.3	3.7	15.0	21.0	29.8	16.0	22.1	1.0
Installed Capacity (in megawatts)	25,682[2]	10,466	2,843	4,422	31,150	3,222	1,964	7,243[3]
Generation (in billions of kilowatthours)	115.0	47.3	13.1	20.9	123.6	15.7	9.4	34.9
• hydroelectric (%)	94	97	32	99	30	21	12	95
• nuclear (%)	4	0	0	0	48	37	0	0
• thermal (%)	2	3	68	1	22	42	88	5

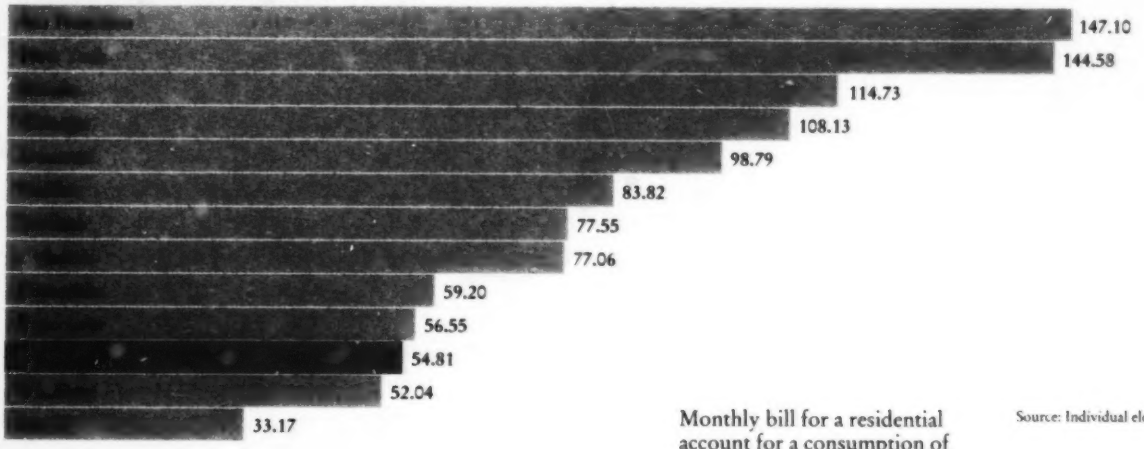
* For the year ended March 31, 1991.

(1) See method of calculation on page 27.
(2) Hydro-Québec also has access to most of the output of the Churchill Falls generating station, which has a rated capacity of 5,428 megawatts.
(3) Includes installed generating capacity of 5,653 megawatts from Churchill Falls and Twinco.

Comparative World Electricity Costs 1991

(in dollars)

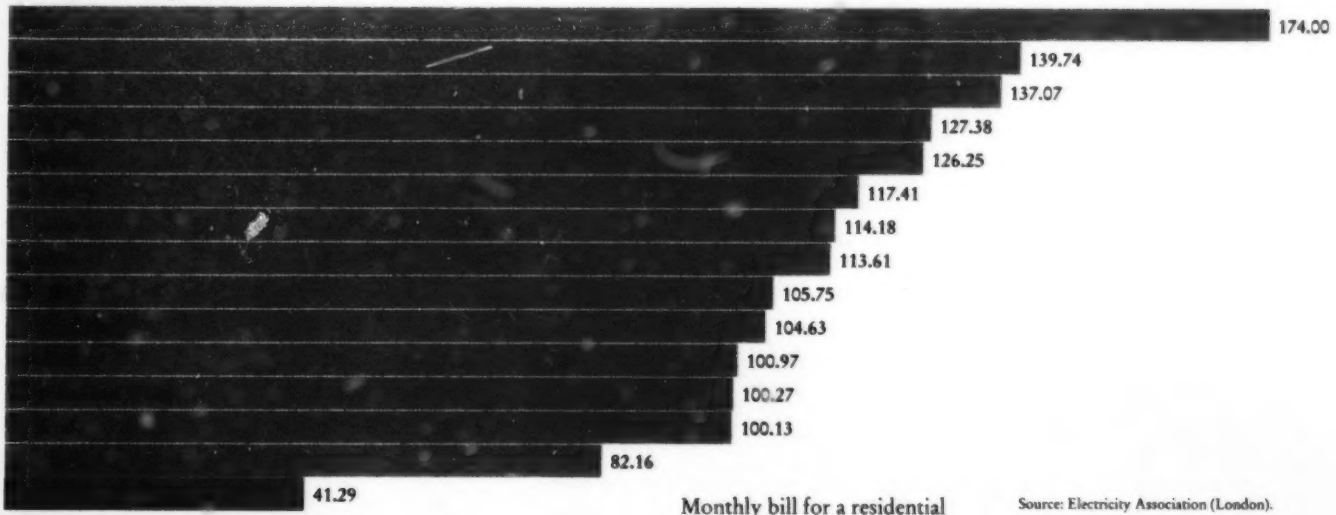
CANADA AND THE UNITED STATES



Monthly bill for a residential account for a consumption of 1,000 kilowatthours, excluding sales tax, at May 1, 1991.

Source: Individual electric utilities.

EUROPE AND JAPAN

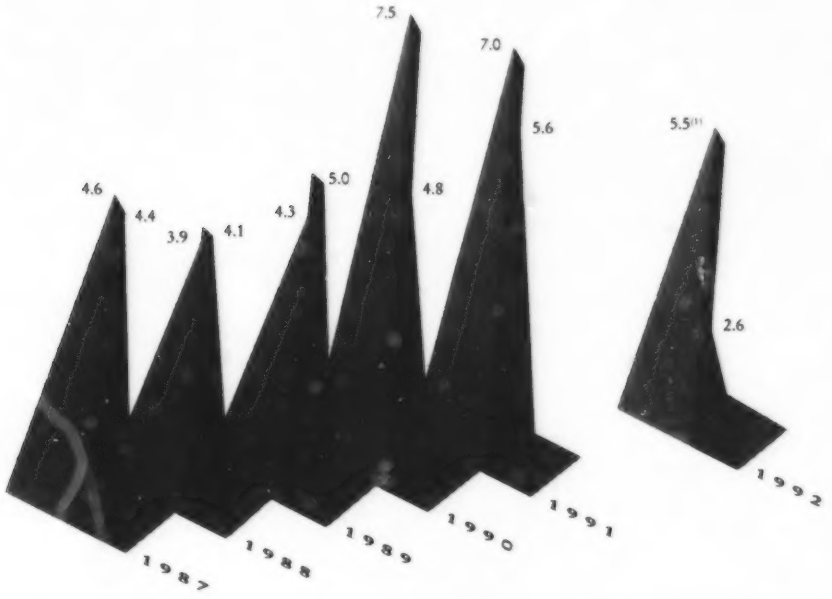


Monthly bill for a residential account for a consumption of 625 kilowatthours, including taxes, at January 1, 1991.

Source: Electricity Association (London).

Hydro-Québec
Average Rate Increases
1987-1992

(in percentages)



Average rate increase in force on May 1

Consumer Price Index (Canada)

(1) Average rate increase to be approved by the Québec Government.

Principal Installations
QUÉBEC
Grande-Baleine Complex
La Grande-2-A
La Grande-2
La Grande Complex
Manicouagan-aux-Outardes Complex
Sainte-Marguerite
La Romaine Complex
Manic-5
Manic-3
Ashuapmushuan Complex
Haut-Saint-Maurice

Installed Capacity by Type of Power Station 1991

	(in megawatts)
Hydroelectric	
La Grande – phase I	
La Grande-2	5,328
La Grande-4	2,651
La Grande-3	2,304
Beauharnois	1,653
Manic-5	1,351
Manic-3	1,183
Manic-5-PA	1,064
Manic-2	1,015
La Grande-2-A	999[1]
Other (less than 1,000 MW – 45 plants)	7,535
	25,083
Thermal	
Gentilly-2 (nuclear)	685
Tracy (conventional)	600
De La Citière and Cadillac (gas turbine)	363
Other (22 diesel units)	108
	1,756
Total Installed Capacity	**26,839[2]**

Economically Viable Hydroelectric Potential 1991

Future hydroelectric generating stations or complexes	Maximum power at peak (in megawatts)	Average annual output (in terawatthours)
Northwest Region		
La Grande – phase II		
La Grande-1[3]	1,310	7.3
Laforge-1[3]	820	4.5
Brisay[3]	380	2.3
Laforge-2	290	1.8
Eastmain-1	470	2.7
Grande-Baleine	3,160	16.2
Nottaway-Broadback-Rupert (NBR)	8,440	45.3
	14,870	**80.1**
North Shore Region		
Sainte-Marguerite	790	4.1
La Romaine	1,610	8.3
	2,400	**12.4**
Saint Laurent Region		
Ashuapmushuan	730	3.5
Haut-Saint-Maurice	600	2.8
	1,330	**6.3**
Other Power Stations	200	0.9
Total Potential	**18,800**	**99.7**

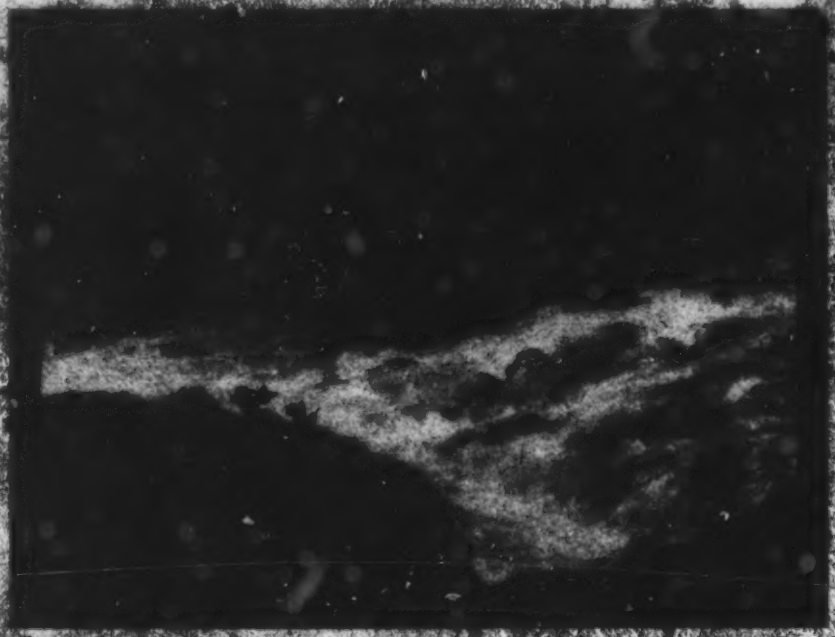
(1) On December 31, 1991, three generating units at La Grande-2-A were in service. This 6-unit generating station, whose construction should be completed in 1992, will have a total installed capacity of 1,998 megawatts.
(2) Hydro-Québec also has access to most of the output of the Churchill Falls generating station, which has a rated capacity of 5,428 megawatts.
(3) Under construction.

Principal Financial Parameters for Hydro-Québec 1991-1994

		FORECAST		
	1991	1992	1993	1994
Rate of growth of Québec's real Gross Domestic Product (in %)	-1.5	2.4	3.5	3.3
Rate of growth of volume of Hydro-Québec sales (in %)	1.4	6.1	5.2	3.9
Rise in Consumer Price Index in Canada (in %)	5.6	2.6	3.3	3.7
Interest rates on bonds of 10 years or more (in %)				
• Government of Canada	9.7	8.6	9.2	8.4
• Government of the United States	8.0	7.3	7.9	7.7
Canadian dollar exchange rate at December 31 in US$	0.865	0.840	0.826	0.813

Economic Snapshot of Québec

Real Gross Domestic Product (1990) (in millions of 1986 dollars)		114,990
Average growth of real Gross Domestic Product (1986-1990)		2.9%
Average growth of the Consumer Price Index (1986-1990)		4.2%
Average growth of non-residential investment (1986-1990)		10.8%
Reduction of budget deficit (1986-1990)		0.9%
Reduction of net financial needs (1986-1990)		14.7%
Relative share of principal sectors of economic activity in the Gross Domestic Product (1990)		
• Primary		3.3%
• Construction		6.4%
• Manufacturing (1986)		20.4%
- Foods and beverages	13.1%	
- Paper and related products	12.3%	
- Primary metals	8.1%	
- Chemicals	7.3%	
- Electrical and electronic products	7.2%	
- Transportation	7.0%	
- Clothing	6.8%	
- Other	38.2%	
• Services		69.9%
Relative share of exports in Gross Domestic Product (1990)		14.8%
Population (1990)		6,969,500
• Relative share of Canada's population		26.2%
Relative share of Québec's Gross Domestic Product of Canada's GDP (1990)		23.1%



Joseph C. Farquhar
Lime Key

Development Projects: Consultation is Key

As a public utility, Hydro-Québec operates in a complex legal context where development and the environment are concerned. This affects in particular its three-year Development Plan, which contains its forecasts for electricity demand, its construction program and an assessment of the economic and environmental aspects of its proposed projects. Before being approved by the government, this document, which is drawn up after a series of public meetings, is submitted to a multipartite parliamentary commission which then holds public hearings.

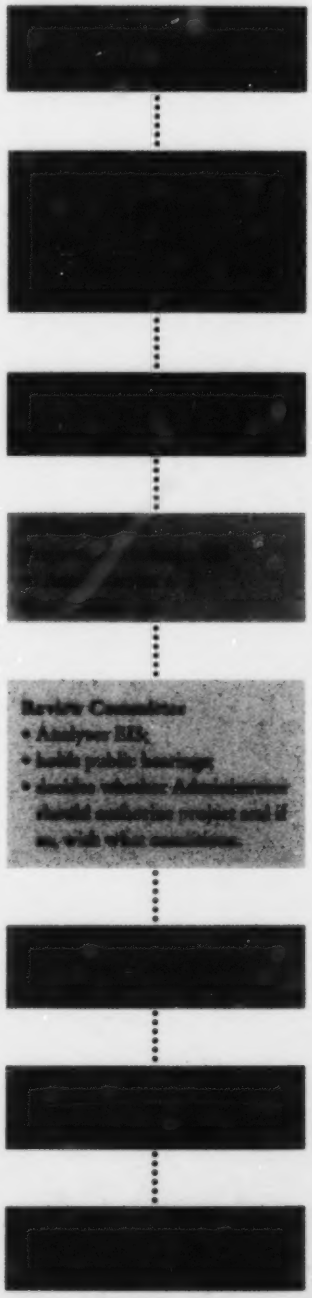
Likewise, every development project must satisfy a series of laws and regulations. Before moving ahead, Hydro-Québec must obtain government authorization at both the draft design and construction phases. These authorizations are granted only after a very rigorous environmental assessment process that also involves public hearings. Far from constituting a constraint, this process in fact represents Hydro-Québec's best guarantee for completing its projects. The studies and public consultations enable the utility to modify its projects in order to make them more environmentally acceptable.

For Hydro-Québec, respect for the environment is both a moral and a legal commitment. That is why the utility undertakes multiple studies and consultations before making its plans a reality.

For example, the Grande Baleine project, which is governed by the *James Bay and Northern Québec Agreement* (JBNQA), is subject to four assessment procedures: one provincial and one federal south of the 55th parallel (Cree procedure) and two others north of the 55th parallel (Inuit procedure). The two governments divide up the studies according to their respective jurisdictions. The utility is also subject to the federal Environmental Assessment and Review Process (EARP).

In January 1992, the parties involved signed a memorandum of understanding on harmonizing the various assessment procedures. This provides for joint hearings and payment of substantial financial assistance to Native people so that they can meet the costs of their participation.

The various committees responsible for examining the projects consist of representatives of the Québec and Canadian governments as well as of the Cree or Inuit communities, as appropriate. The diagram on the right charts the stages in the provincial Inuit process.



The James Bay and Northern Québec Agreement: An Innovative Accord

The *James Bay and Northern Québec Agreement* is unique in North America. It is based on two major principles: recognition of the right of Native people to develop while preserving their culture and traditional way of life; and recognition of the right of Québec to exploit the resources of its territory as a whole, for the benefit of the entire population.

Signed in 1975 by the Grand Council of the Crees of Québec, the Northern Québec Inuit Association, the governments of Québec and Canada and Hydro-Québec, the Agreement first allowed successful completion of the La Grande complex. In order to meet Québec's long-term energy needs, it also provided for future projects like Grande Baleine.

Since its signing, the Agreement has been amended ten times, and six new agreements have been signed as the outcome of on-going collaboration between the parties.

The Agreement covers all important aspects of regional land-use and organization:

- Cree and Inuit self-government provisions;
- the administration of justice, social services and health, education as well as social and economic development;
- hunting, fishing and trapping rights;
- environmental protection, especially the role of the Cree and Inuit on environmental assessment committees.

The territory covered by the Agreement, in which some 18,000 Cree and Inuit live, covers 1,066,000 km² (411,615 square miles). It is divided into three categories:

- category I lands (14,025 km²/5,415 square miles) are reserved for the exclusive use of local native communities;
- Native people have exclusive hunting, fishing and trapping rights on category II lands (162,325 km²/62,680 square miles) and participate in their management;
- most development projects involve category III lands (889,650 km²/343,520 square miles). Natives also have hunting, fishing and trapping rights, some of which are exclusive.

■ Territory governed by the James Bay and Northern Québec Agreement

As the key to future hydroelectric development, the James Bay and Northern Quebec Agreement *enables Hydro-Québec to exploit the resources of this region for the benefit of all, with respect for everyone.*

A Few Facts

Pursuant to the 1975 Agreement and those that followed, Hydro-Québec and the governments of Québec and Canada have to date paid $505 million in compensation to the Crees, Inuit and Naskapis.

Since the signing of the agreement, the number of native families living from hunting, fishing and trapping has doubled. They benefit from the Cree Hunters and Trappers Income Security Program.

Compensation has enabled Natives to establish a number of flourishing companies: Air Creebec, Air Inuit, Cree Yamaha, Cree Construction, etc.

Native communities run their own social and health services.

Among the Crees, since the mid 1970s, infant mortality has been cut in half, life expectancy has increased by more than 20 years and the population has grown by 3.5% per year, twice the rate for the rest of Québec.

The Cree School Board and Kativik School Board are run by elected representatives from both communities. Cree and Inuktitut are languages of education until the third year of schooling.

The Borrowing Program: Sustained Planning and Diversification

For several years now, Hydro-Québec has turned to international financial markets to obtain financing. In the present context of globalized markets and increased competition, the utility must plan its financing activities very carefully. That is why it has adopted a strategic financing plan, which annually defines the strategies to be used to respond to its short, medium and long-term needs.

Recently, Hydro-Québec revised downward its financial needs for the next ten years, mainly to reflect the postponement of the Grande Baleine project. While needs remain high, they will be less than anticipated for the next two or three years.

The strategic financing plan includes a prudent assessment of the capacity of various markets to absorb new issues, in order to maintain a degree of scarcity and thereby support demand. The maturities of new issues are determined as a function of the maturities of current debt.

Several years ago, in order to diversify its sources of financing, Hydro-Québec set out to conquer the principal financial markets. Today, it maintains its presence on these markets by regularly offering issues of sufficient size to ensure liquidity and thus support an active secondary market. The use of swaps offers protection against exchange risks.

To maintain its position on the international financial scene, Hydro-Québec has prepared an ambitious investor and investment-banker relations program, also intended to expand its investor base.

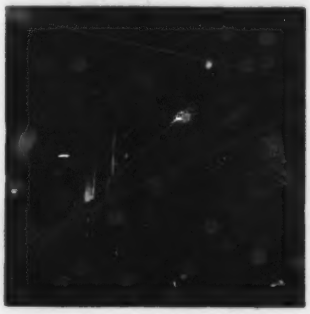
Those in charge of finance at the utility keep a close watch on the international financial markets. They are in constant contact with various partners throughout the world, regularly consulting members of the nine financial syndicates that manage Hydro-Québec's issues and maintaining close links with institutional investors.

Our dynamic finance team has a thorough knowledge of the markets which enables it to assess the demand on each market and offer issues at the most opportune time for investors. Moreover, it actively manages the factors that influence the cost of financing, such as exchange and interest rates. By making use of derivative instruments, they can set these parameters at the most appropriate time, independent of the date of issue.

The utility has also designed a program to diversify its financing instruments. While in the past it concentrated its activity on the bond market, it is now turning to commercial paper and medium-term multi-currency notes as well. In 1991, global offerings were used for the first time. These new instruments allow Hydro-Québec to reach investors whose needs are different from those in its traditional bond markets. For the future, the utility is studying alternative forms of financing.

Rigorous planning of issue dates and maturities, diversified instruments and sources of financing, dynamic relations with its partners: these are the strengths of the Hydro-Québec financing plan.

Diversification, allied with rigorous planning of its activities, enables Hydro-Québec to achieve one of its fundamental objectives: to seek financing at the best possible cost.



Electricity Exports: A Natural Link Worth Preserving

Hydro-Québec's primary mission is to supply its customers in Québec with energy at the best price, while ensuring its own long-term financial stability. In order to maximize the spinoffs of each kilowatthour produced for purposes of consumption in Québec, the utility operates its power system with great flexibility as regards supply and demand-side management.

The energy efficiency project, which affects residential as well as industrial customers, is the principal lever available to the utility to manage growth in Québec demand. For supply-side management, the utility has introduced a planning process that allows regular review of its construction program to reflect Québec and external demand. Long-term development occurs generating station by generating station, in order to adapt to changes in demand. In the shorter term, the utility can also buy energy from independent power producers in Québec.

Hydro-Québec has also developed a strategy of exchanges with neighboring systems. It can import energy to meet temporary needs, particularly at peak periods. But the major component of this strategy is the export policy, which at the present time is based primarily on the long-term sale of a maximum of 10% of available generating capacity. Although new installations are planned only to reflect needs on the Québec market, earlier construction allows substantial sales to be made beyond our borders. This requires no additional investment because no generating station or transmission line is built solely for export purposes.

This is the context of the 1,000 MW contract that Hydro-Québec negotiated with the New York Power Authority.

The additional demand is already included in the forecasts on which the construction program is based. By extending until November 1992 the deadline for ratifying the contract, both parties obtain the necessary latitude for evaluating new energy conditions in their respective markets. In this regard, Hydro-Québec has great flexibility in adapting to the fluctuations in demand and delaying the construction of new facilities if it proves necessary.

There can be no doubt that New York State will need more electricity, sooner or later. For a number of states in the northeastern United States, hydroelectricity is the only non-polluting source of energy they can access directly. Ultimately, the hydroelectric option is the best choice, environmentally and economically.

For both sides, export contracts make good business sense, and represent a natural link worth preserving.

For decades, Hydro-Québec has sold electricity to neighboring systems in Canada and the United States. This benefits everyone: Hydro-Québec optimizes the use of its hydroelectric resources and consolidates its financial basis, while our partners enjoy a reliable, clean source of energy at advantageous prices.

René Richard

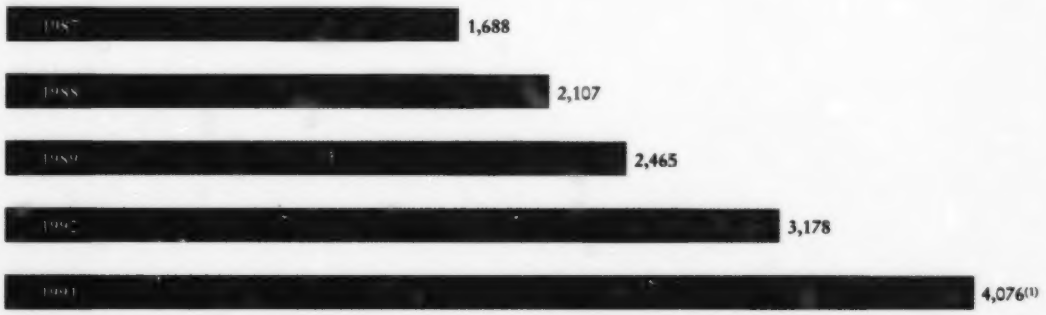
Cap-aux-Dies

© 1992, Fondation René Richard

Gross Investment 1987-1994

(in millions of dollars)

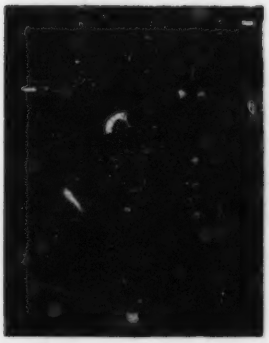
ANNUAL AVERAGE INCREASE
1987-1991: 24.7%
1991-1994: 8.9%
1987-1994: 17.6%



FORECAST

- Generation
- Transmission
- Distribution
- Other

These investments are necessary to satisfy demand for electricity in Québec, upgrade installations, improve reliability of generating facilities and the power system and implement the energy efficiency project.

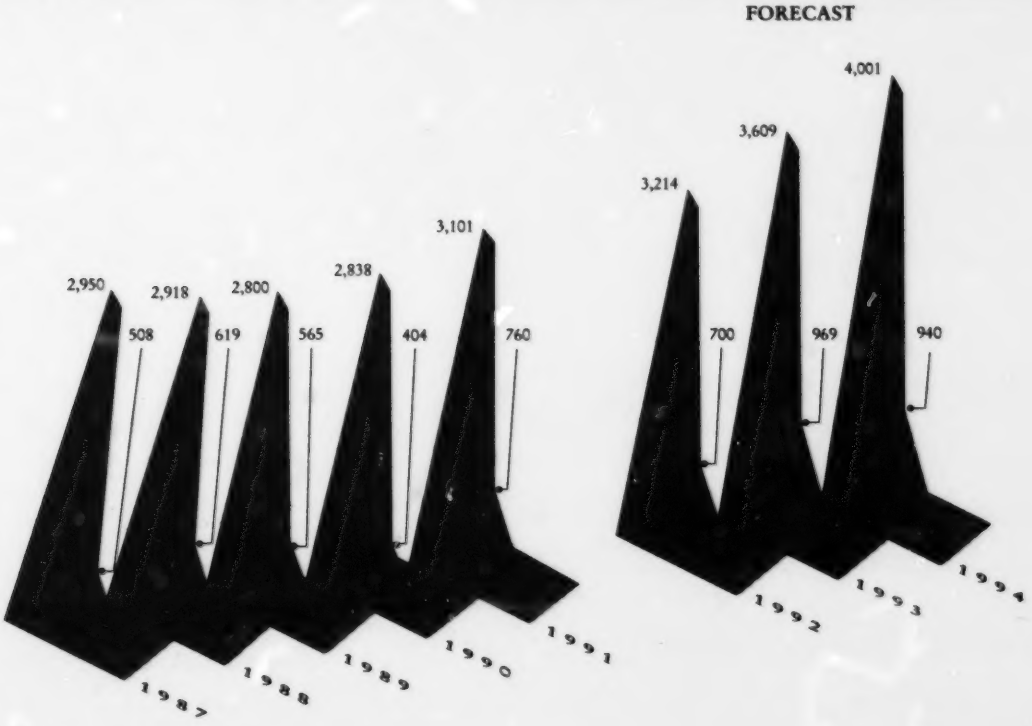


(1) Since 1991, investment in the subtransmission system has been allocated partly to Transmission and partly to Distribution. In previous years, such investment has been classified entirely with Transmission.

Net Income
1987-1994

(in millions of dollars)

ANNUAL AVERAGE INCREASE
1987-1991: 10.6%
1991-1994: 7.3%
1987-1994: 9.2%



Income before interest and exchange loss

Net income

SENSITIVITY MATRIX FOR 1992 NET INCOME

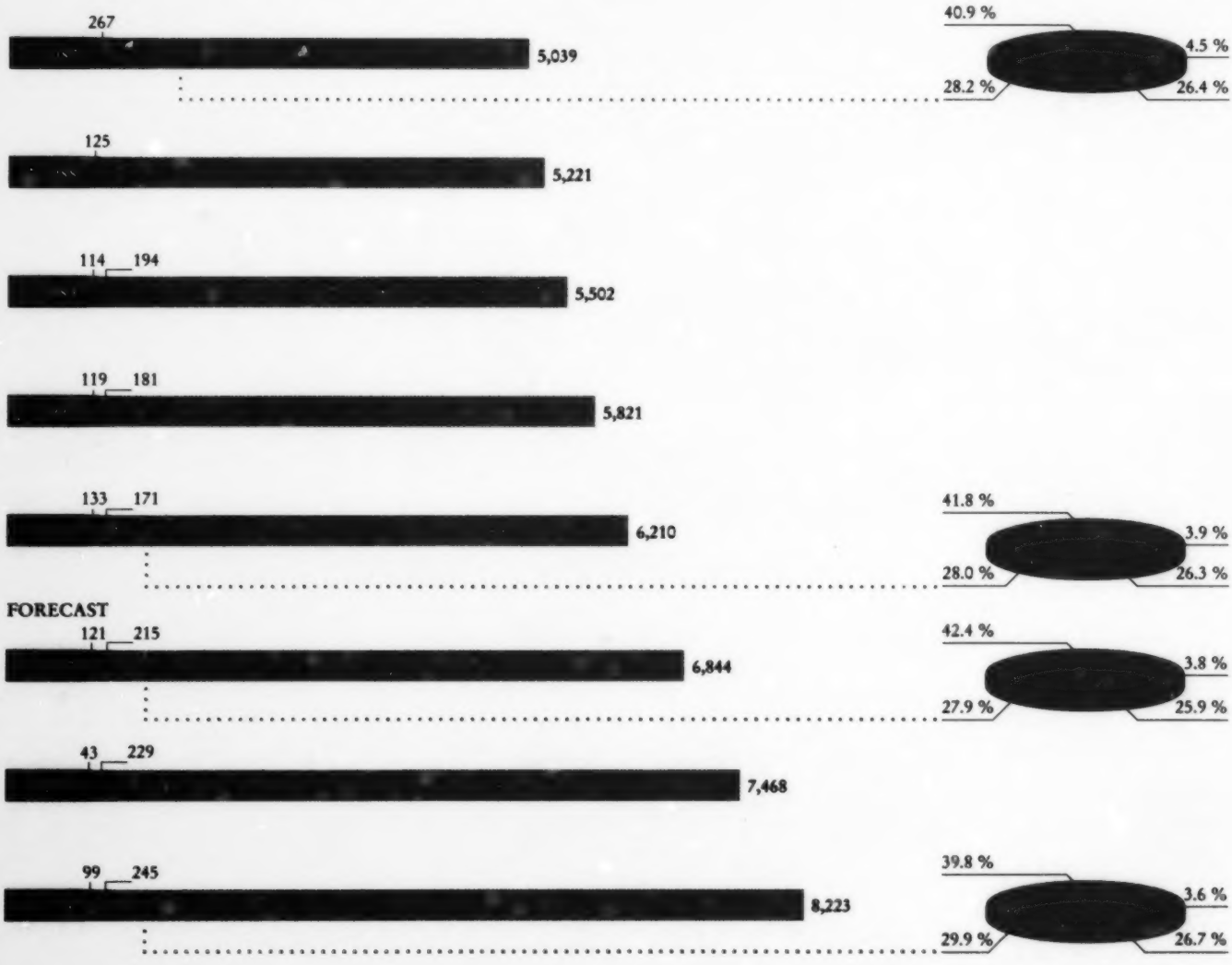
Parameter	Variation	Variation of net income (in millions of dollars)
Operating Expenditure	+ 1%	– 20
Interest rate	+ 1%	– 24
Exchange rate of C$ in US$	+ US$0.01	+ 11
Exchange rate of C$ against a basket of currencies other than the US$	+ 1%	+ 3

The resumption of exceptional measures to restore energy reserves and the introduction in 1992 of a percentage fee on long-term debt guaranteed by the Province de Québec are the principal factors accounting for the delay in improvement of net income forecast for 1992. However, the financial results from 1992 to 1994 will provide for interest coverage.

Revenue from Sales of Electricity 1987-1994

(in millions of dollars)

ANNUAL AVERAGE INCREASE
1987-1991: 5.4%
1991-1994: 9.8%
1987-1994: 7.2%



- Canada (except Québec)
- United States
- Québec

The forecast sales are based exclusively on deliveries of firm electricity.

- Residential and farm
- General and institutional
- Industrial
- Other

Summary of Contracts with Neighboring Systems

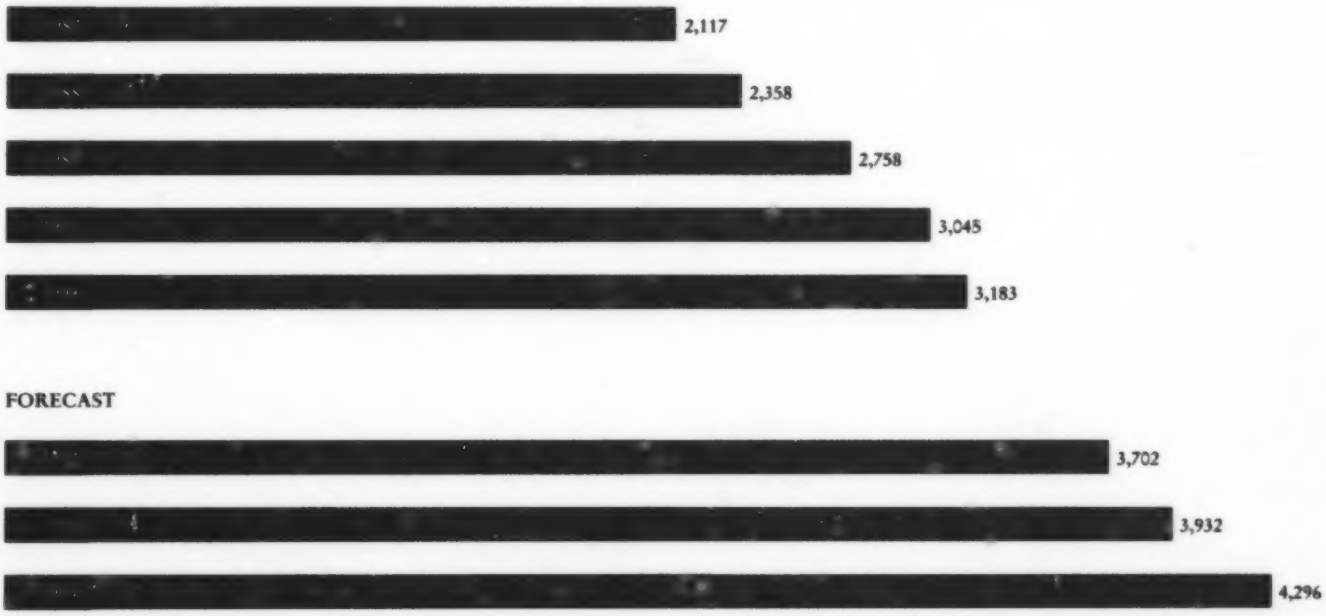
	Start of Deliveries/ Receptions	Expiration Date	Power (MW)	Maximum Energy Deliveries/Receptions Annual (TWh)	Total (TWh)
Firm Power and Energy Sales Contracts					
CANADA					
New Brunswick Electric Power Commission	1988	1994	50-350	3.5	20.0
Cornwall Electric	1985	1999	55	0.5	7.2
UNITED STATES					
New York Power Authority	1978	1998	800	3.0(1)	–
New York Power Authority(2)	1995(3)	2016	1,000(4)	6.6	131.0
New York Power Authority(2)	1999	2018	800	3.0(5)	60.0
Vermont Department of Public Service	1985	1995	150	1.3	13.0
Vermont Joint Owners(2)	1990	2020	374(6)	2.5	51.6
Firm Energy Sales Contract					
UNITED STATES					
New England Utilities	1990	2000	–	7.0	70.0
Surplus Energy Sales Contracts(7)					
UNITED STATES					
Nepool Participants	1986	1997	–	4.0	33.0
New York Power Authority	1984	1997	–	11.0	111.0
Firm Power and Energy Purchase Contracts					
CANADA					
Alcan	1992	1995	33-100	0.4	1.3
UNITED STATES					
Central Vermont Public Service Corporation(8)	1991	1996	50	0.3	1.4
Central Vermont Public Service Corporation(8)	1991	2012	25	0.2	3.5
Firm Power Purchase Contracts					
CANADA					
Gulf Power	1970	–	3	–	–
New Brunswick Electric Power Commission	1991	2011	200-400	–	–
UNITED STATES					
New York Power Authority	1989	2011	400(9)	–	–

(1) The agreement on the associated energy is subject to regular negotiations. Deliveries are made between April and October.
(2) Contract signed as part of the long-term sales objective of 3,500 megawatts.
(3) This contract is currently the subject of discussions between Hydro-Québec and NYPA. The postponement of the start of deliveries is under consideration. Moreover, the contract may be cancelled without penalty by either party before November 30, 1992.
(4) 500 MW in 1995-1996 and in 2015-2016.
(5) Deliveries are made between April and October.
(6) Vermont Joint Owners may exercise options allowing maximum power to be reduced by 38 megawatts.
(7) The amounts of energy offered depend on the surplus available.
(8) Letters of agreement.
(9) Power is received from November to March.

Expenditure
1987-1994

(in millions of dollars)

ANNUAL AVERAGE INCREASE
1987-1991: 10.7%
1991-1994: 10.5%
1987-1994: 10.6%



■ Operations

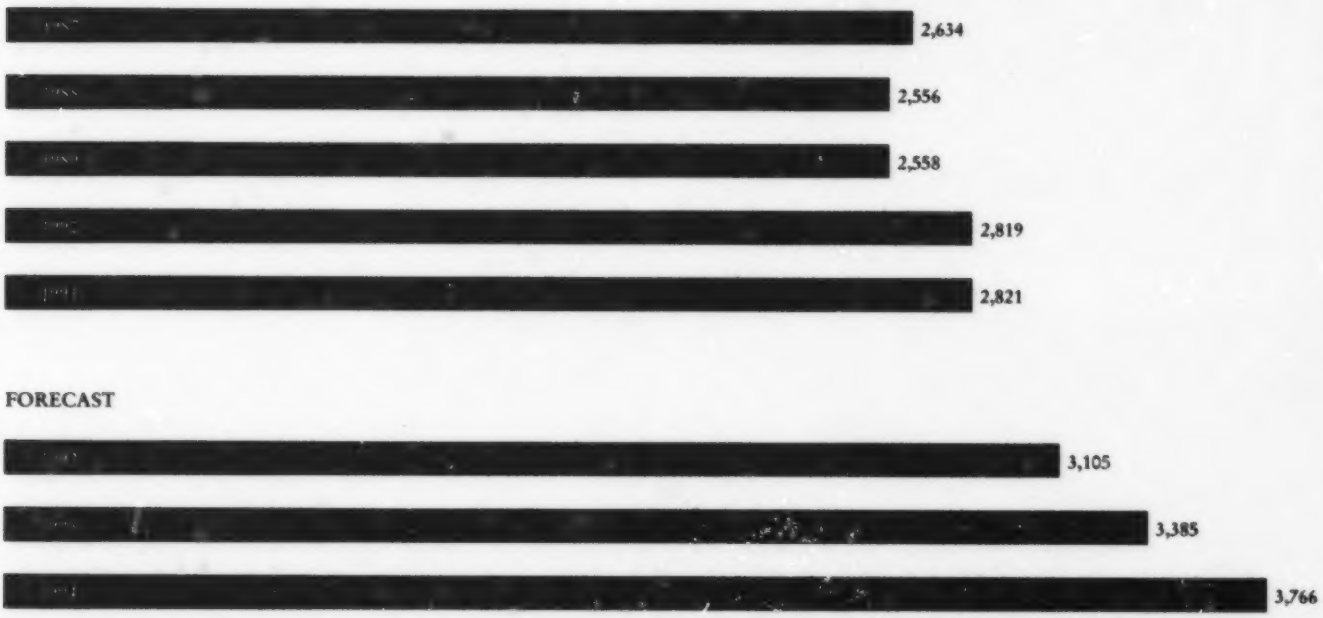
■ Purchases of electricity, depreciation of fixed assets and taxes

Growth in expenditure will result mainly from the energy efficiency project and service quality enhancement programs, purchases of electricity from independent producers and the introduction in 1992 of a percentage fee on long-term debt guaranteed by the Province de Québec.

Interest and Exchange Loss, 1987-1994

(in millions of dollars)

ANNUAL AVERAGE INCREASE
1987-1991: 1.7%
1991-1994: 10.1%
1987-1994: 5.2%



FORECAST

■ Borrowing costs capitalized under Construction in progress

■ Interest and exchange loss

Joyce Kellogh
Winter Rapids
©1992, J. Kellogh

Financial Policy

Objective	*Principal Strategies*
Improve the financial position of Hydro-Québec in order to restore the desired margin of manoeuvre and support development while seeking to achieve the following financial ratios: – interest coverage of at least 1.0; – capitalization ratio of at least 25%; – return on equity greater than the average cost of debt; – self-financing of at least 30%.	• Control cost increases and pursue efforts to improve productivity. • Implement the new total quality management approach *(Défi performance)*. • Minimize financing costs and manage financial risks. • Propose rate increases that cover the costs of supply and support the energy efficiency programs.

Financing Activities

Objectives	*Principal Strategies*
1. Ensure that the borrowing program is successfully conducted, whatever the conditions on the financial markets.	• Maintain access to international financial markets. • Expand the range of financial tools available. • Expand the investor base.
2. Seek financing at the best cost while trying to limit foreign exchange risk.	• Give preference to Canadian-dollar financing. • Use US dollar financing as primary alternative because of US dollar revenue. • Seek financing in currencies covered by swaps or other instruments.
3. Seek an interest-rate structure that minimizes financial risks and particularly achieve an appropriate ratio of fixed-rate to floating-rate debt.	• Maintain from 5% to 20% of debt as floating-rate debt. • Develop debt instruments whose cost reflects the price of products to which the utility is vulnerable.
4. Try to spread maturities so as to facilitate debt refinancing.	• Give preference to terms of 10 or more years.
5. Ensure effective management of current debt.	• Evaluate the debt and swap portfolio on a regular basis. • Prepare a schedule of currency swaps to cover existing debt. • Renegotiate and refinance loans wherever such operations enable Hydro-Québec to reduce the cost of its debt.

Principal Financial Ratios 1987-1994

CURRENT RATINGS ON LONG-TERM DEBT:
Duff and Phelps: AA
Moody's: Aa3
Standard and Poor's: AA–
Canadian Bond Rating Service: AA
Dominion Bond Rating Service: A (high)

							FORECAST	
	1987	1988	1989	1990	1991	1992	1993	1994
Interest coverage	1.25	1.26	1.12	1.04	1.10	1.06	1.09	1.09
Capitalization ratio (%)	24.9	26.2	25.9	24.8	23.7	23.5	23.9	23.8
Return on equity (%)	7.0	8.0	7.0	4.8	8.4	7.2	9.2	8.1
Self-financing (%)	41.0	34.0	30.0	30.7	27.5	27.2	32.8	32.8
Return on revenue (%)	10.0	11.7	10.2	6.9	12.1	10.1	12.8	11.3

$$\text{Interest coverage} = \frac{\text{Income before interest and exchange loss + Net investment income}}{\text{Gross interest charges}^{(1)}}$$

$$\text{Capitalization ratio} = \frac{\text{Shareholder's equity}}{\text{Shareholder's equity + long-term debt + Notes payable + Long-term debt payable within one year + Perpetual debt}}$$

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Shareholder's equity (average of year)}}$$

$$\text{Self-financing} = \frac{\text{Total funds provided by operations – Declared dividends}}{\text{Investment + Redemption of long-term debt}}$$

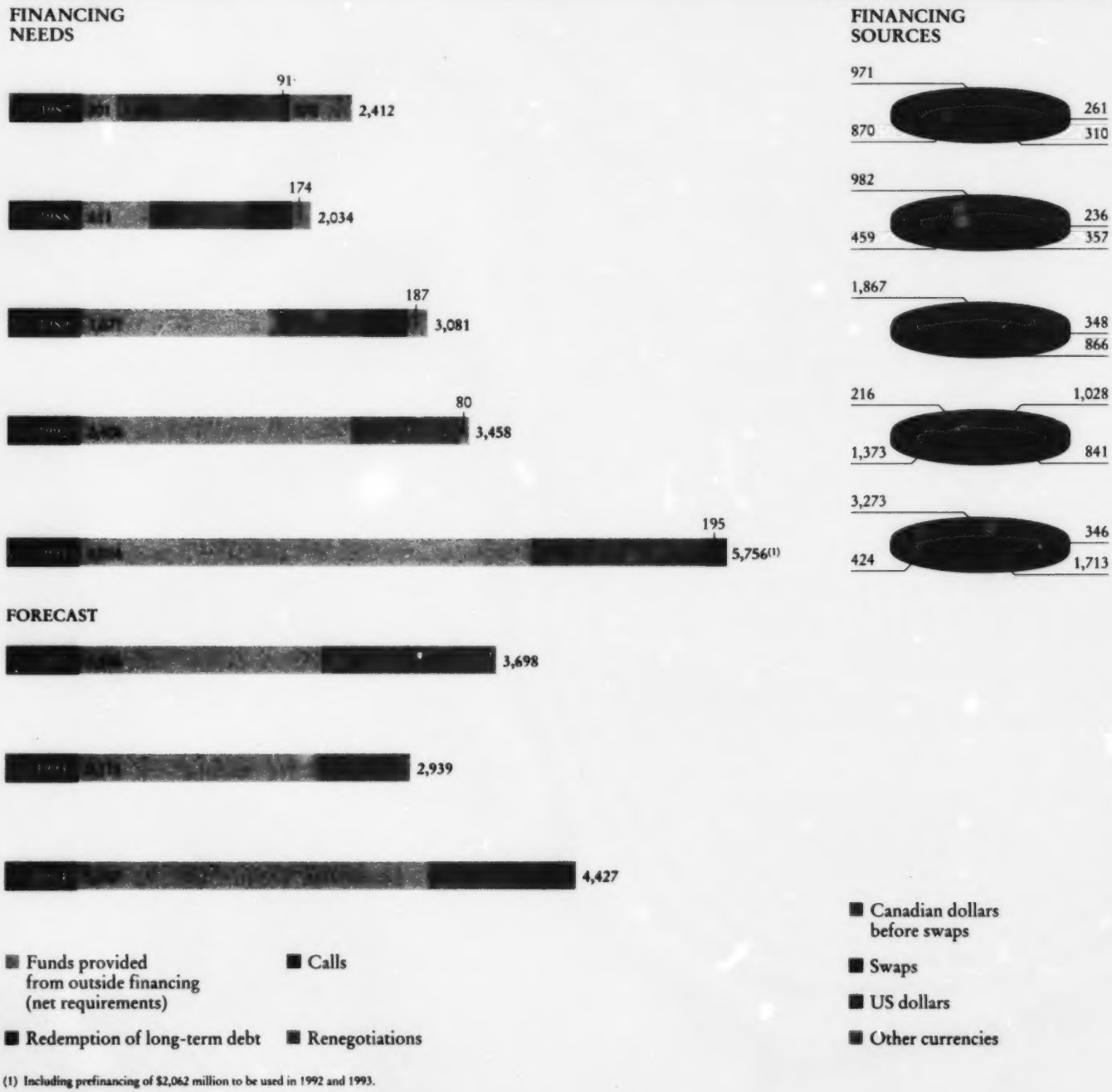
$$\text{Return on revenue} = \frac{\text{Net income}}{\text{Total revenue}}$$

(1) Interest on debt securities + Amortization of debt-security discount and expenses.

Needs and Sources of Financing 1987-1994

(in millions of dollars)

ANNUAL AVERAGE INCREASE
1987-1991: 24.3%
1991-1994: – 8.4%
1987-1994: 9.1%



(1) Including prefinancing of $2,062 million to be used in 1992 and 1993.

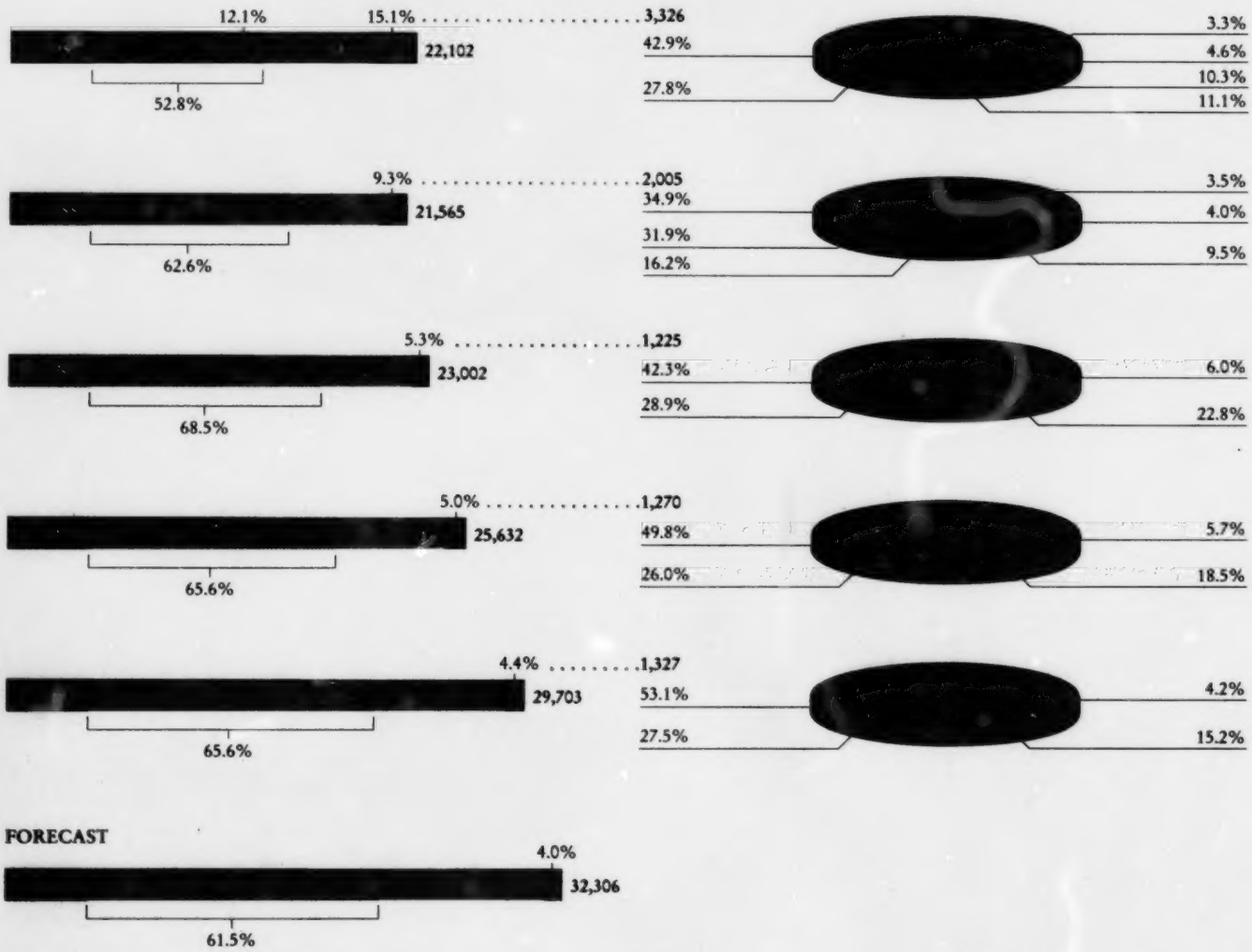
Daniel Beauchemin (Communications and Public Relations), Lise Bégin, Michèle Lemieux, Élisabeth Chevassus and Johanne Daneau, of the investor relations team.

Carolle Hélie, David Blustein, Louis Beaudoin and André R. Marcil, of the financing team.

Josée Laporte, Gilles Gaudreau and Paul Lacoursière, of the financing documentation team.

Breakdown of Debt(1) by Currency 1987-1992

(totals in millions of dollars)



FORECAST

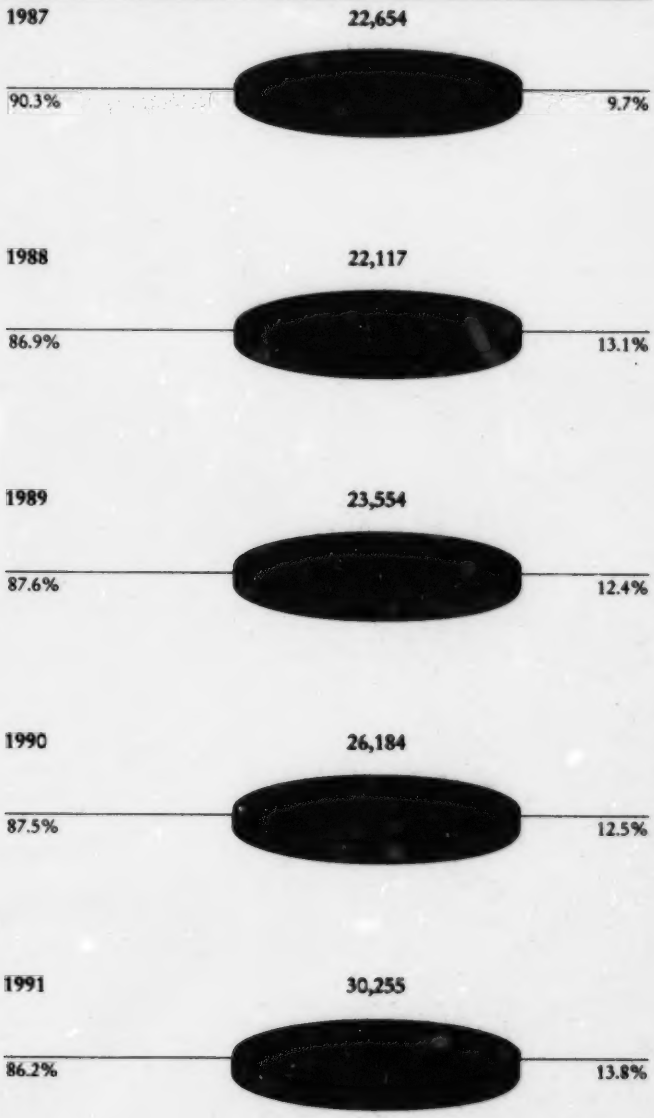
- Canadian dollars before swaps
- Swaps
- US dollars
- Other currencies
- Swiss francs
- Deutsche marks
- Yen
- Pounds Sterling
- Ecus
- Guilders

(1) Includes debt payable within one year but excludes perpetual debt.

Breakdown of Total Debt(1) at Fixed and Floating Rates 1987-1991

(totals in millions of dollars)

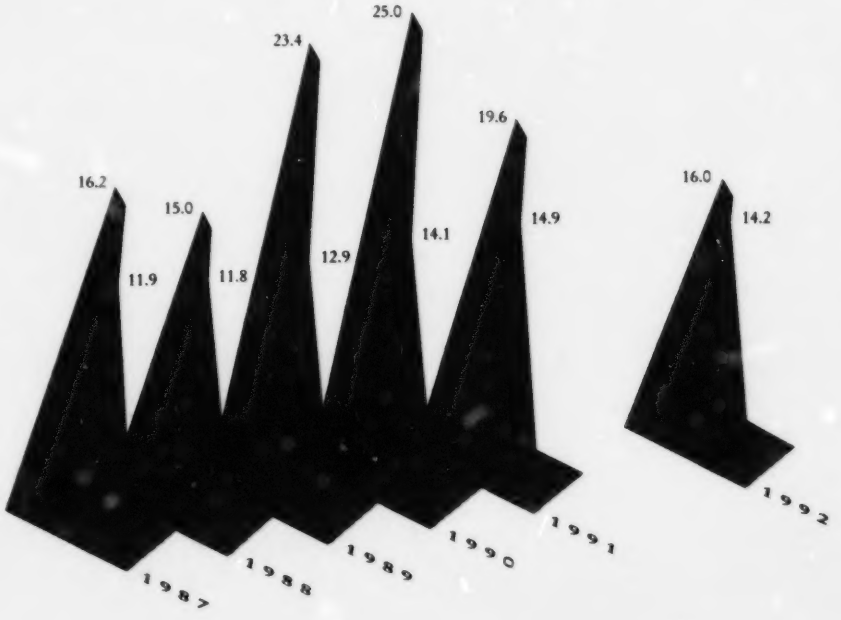
A group of investors accompanied by Native guides at the mouth of the La Grande Rivière at James Bay.



(1) Includes perpetual debt.

Average Maturity of Borrowings for the Year and of Total Debt 1987-1992

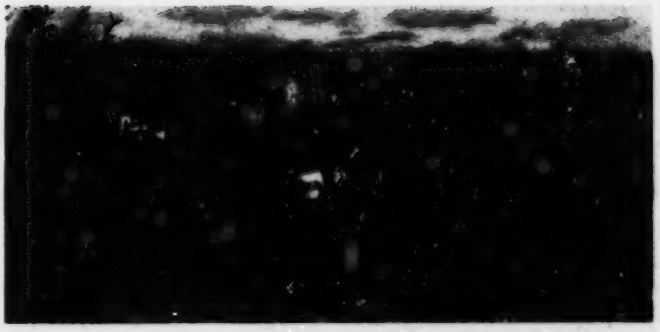
(in number of years)



Average maturity of borrowings for the year

Average maturity of the debt

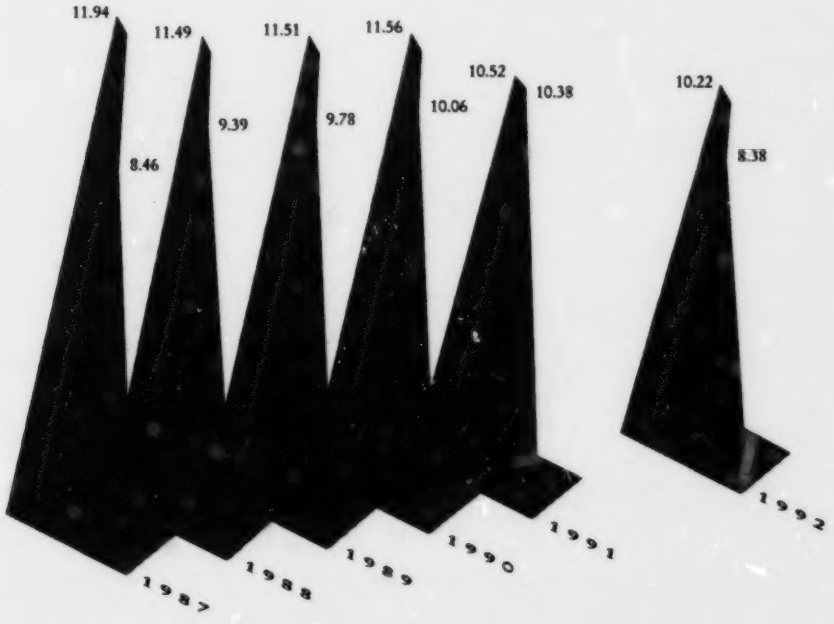
Financial partners at the La Grande-2 spillway.



Effective Cost of the Debt 1987-1992

(in percentages)

FORECAST



Average effective cost of the debt

Average effective cost of borrowings for the year

$$\text{Effective cost of the debt} = \frac{\text{Debt in foreign currencies} \times \text{Effective rate (rate of coupon on a semi-annual basis adjusted for the discount or premium at issue)} \times \text{Exchange rate on December 31}}{\text{Debt at exchange rate at issue}}$$

Short-Term and Medium-Term Financing Programs

Type of financing	Volume authorized at December 31, 1991	Market	Maturity	Amount outstanding at December 31, 1991
Lines of credit	US$300 or C$ million	Canada	1 year	C$17.5 million
	C$40 million	Canada	1 year	–
	US$25 million	United States	1 year	US$0.6 million
	US$5 million or equivalent in other currencies	Eurodollar	1 year	–
Revolving standby lines of credit	US$750 million	Eurodollar	1994	–
	US$400 million	Eurodollar	1993	–
	US$500 million	United States	1996	–
Commercial paper	US$2,750 million or C$ equivalent	United States	Max. 270 days	US$55.0 million
		Canada	Max. 365 days	C$152.6 million
	US$250 million	Eurodollar	Max. 365 days	US$50.0 million
Multi-currency medium-term notes	US$1 billion or equivalent in other currencies	United States	9 months or longer	US$664.6 million

Canadian $1,100,000,000

Hydro-Québec

(An agent of the Crown in right of the Province de Québec)

10.875 per cent. Global Debentures, Series HW, due 25th July, 2001

Guaranteed unconditionally as to principal and interest by

Province de Québec

Issue Price 99.43 per cent.

Merrill Lynch & Co. — Nesbitt Burns Inc.

Yamaichi International (Europe) Limited — Lévesque Beaubien Geoffrion Inc.

Wood Gundy Inc. — RBC Dominion Securities International

BMO Nesbitt Thomson Ltd. — Credit Suisse First Boston Limited

Deutsche Bank Capital Markets Limited — Goldman Sachs International Limited

IBJ International Limited — J.P. Morgan Securities Ltd.

Nomura International — Swiss Bank Corporation

UBS Phillips & Drew Securities Limited

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